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SUBJECT: WHA DAS MCMULLEN VISITS PARAGUAY

Classified By: DCM Michael J. Fitzpatrick; reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: During his January 9-11, 2008 visit to Asuncion, WHA DAS Chris McMullen co-led the USG delegation to the Three-Plus-One meeting (septel), and also conducted separate meetings with the Paraguayan Foreign Ministry, Brazilian diplomatic representatives, and business sector leaders. All meetings were characterized by a cooperative and collegial tone. The Paraguayan Foreign Ministry proposed the initiation of regular (twice a year) bilateral law enforcement cooperation meetings following the Three-Plus-One model. The Brazilians maintained that fundamentally nothing has changed in the two decades since the fall of Stroessner as regards Paraguayan political mechanisms, personalities and dynamics. Business leaders said their fortunes have improved in concert with Paraguay macroeconomic gains in the last five years, and predicted that political instability within the Colorado Party may lead to a Lino Oviedo presidency but without wider social upheavals. END SUMMARY.

FOREIGN MINISTRY WANTS ONE-PLUS-ONE LIKE THREE-PLUS-ONE

¶2. (C) In addition to Three-Plus-One interventions and activities (septel) during his January 9-11 visit to Asuncion, WHA Deputy Assistant Secretary (DAS) Chris McMullen met with Paraguay's Vice Foreign Minister Antonio Rivas Palacio and four other Foreign Ministry officials working on bilateral issues. Restating Paraguay's position enunciated at the Three-Plus-One forum, Rivas maintained that there are no indications of terrorist activities in the Tri-Border Area (TBA), but expressed concern that "an image problem" (presumably resulting from USG and press interest in the TBA) has negatively affected tourism and business activity there. To improve the situation, Rivas proposed the initiation of regular (perhaps twice a year) bilateral law enforcement cooperation meetings following the Three-Plus-One model or its existing two-party consultation and cooperation arrangement that Paraguay has with Colombia. DAS McMullen and Ambassador Cason warmly received the suggestion. The Ambassador suggested such institutionalized, regular meetings could rely principally on USG law enforcement representatives from the Embassy team.

¶3. (C) Rivas, DAS McMullen and the Ambassador all expressed enthusiasm regarding Phase II of the Millennium Challenge Corporation (MCC) Threshold Program in Paraguay. Ambassador Cason told Rivas of plans to inform all of the Paraguayan presidential candidates about the MCC Phase II process once the parties, respective nominees are designated, an action which will further demonstrate USG impartiality in the upcoming elections and a willingness to work with whomever the Paraguayans elect. The Paraguayans responded that they see protecting intellectual property rights as critical for their own citizens, and expressed interest in including

action on this transnational threat within their MCC phase II proposal.

¶4. (C) DAS McMullen and Rivas mutually agreed upon the importance of ongoing programmatic efforts such as Peace Corps, exchange programs and increasing higher education opportunities for Paraguayans in the U.S. Ambassador Cason noted mission efforts to increase Paraguayan beef exports to the United States, along with stevia, sesame oil and other products for which Paraguay possesses the potential for significant inroads into the U.S. market.

¶5. (C) When asked about regional concerns regarding political instability in Bolivia, Rivas said Paraguay is watching developments closely but feels comfortable with its existing two plus two mechanism of regular consultations between the Paraguayan Foreign Minister and Minister of Defense and their Bolivian counterparts. Pointing to deep-seated regional and indigenous divisions within Bolivia, however, Rivas admitted the situation could spill over with serious repercussions for Paraguay. McMullen and Ambassador Cason thanked Rivas for GOP promises to forego visa requirements on the border in the event Peace Corps Bolivia volunteers need to be evacuated from Bolivia.

¶6. (C) Rivas said Paraguay supports Venezuela's entry into Mercosur given its importance in energy production. Moving to biofuels, Rivas noted that Brazil has comparative advantages over Paraguay but that the GOP is investigating a joint venture with Brazil for genetic engineering improvements to enhance production levels.

BRAZILIAN TALKING HEADS: "SAME AS IT EVER WAS"

¶7. (C) DAS McMullen met with Brazilian Ambassador to Paraguay Walter Pecly Moreira and DCM/Political Counselor Antonio da Costa Silva for a discussion focused on Paraguayan politics. Ambassador Pecly noted that he had worked as Political Counselor at Brazil's Embassy in Asuncion from 1990-1993 (immediately after Stroessner's 1989 overthrow) in addition to his now more than three additional years here as Ambassador (since 2005). In sum, Pecly said, "nothing has changed in 18 years." The manner of political decision-making is the same, and many of the political players active 18 years ago are the same. Pecly shared anecdotes of Brazilian assistance and development programs that had received major funding allocations yet languished and died on the vine due to lack of Paraguayan institutional follow-through over a three-year period. The meeting featured an overall sense of common concerns and frustration in regards to Paraguayan institutional realities.

¶8. (C) Pecly said Brazil, like the United States, has no favorite candidate in Paraguay's presidential elections. Brazil does believe the Colorado Party will again triumph, but could not predict whether the next president will be Castiglioni, Blanca Ovelar or a reconstituted Lino Oviedo. While Brazil has "no real objections" to a Fernando Lugo presidency, Pecly said he was thoroughly unimpressed with Lugo and his lack of preparedness and leadership ability. Echoing a rising chorus among political observers here in recent weeks, Pecly said Oviedo's newly moderate tone and emphasis on his Colorado Party roots may likely result in his eventual coronation through the ballot box. At bottom, the Brazilians expressed neither concern nor surprise at the current political circus now underway in Paraguay, accustomed to it all as "business as usual."

BUSINESS SECTOR ANALYSTS ON ELECTIONS AND SCENARIOS

¶9. (C) Meeting with four leading members of Paraguay's business sector at the Ambassador's residence, DAS McMullen heard a similar analysis of the Paraguayan political situation -- that political instability within the Colorado Party may likely resolve itself with an Oviedo presidency but

without wider social upheavals. There is wide consensus among the business sector that former vice-president Luis Castiglioni did, in fact, win the Colorado party presidential primary, but no one could forecast with any certainty how the situation would resolve itself. There was no undue concern that some other mechanism such as a backroom deal would determine the eventual party nominee. All four business leaders agreed that a Lugo presidency would be a disaster for business interests, but discounted a Lugo victory as a likely scenario.

¶10. (C) Business leaders said their fortunes have improved in concert with Paraguay,s macroeconomic gains over the last five years. Unpredictable peasant upheavals, demonstrations and road closures common six years ago are virtually unheard of now, they said. There were complaints all around about the giant MERCOSUR partners, non-tariff-barriers to exports from Paraguay. Despite emigration and migratory outflow from Paraguay to Europe and elsewhere, these business leaders were positively bullish regarding Paraguay,s future. Their net worth is increasing and their businesses are booming despite small setbacks and continuing frustrations with MERCOSUR and internal institutional weaknesses, they said. Without saying so directly, the business leaders, attitude suggested that, akin to the attitude of the Brazilian diplomatic representatives, more of the same political circus under the Colorado Party would be perfectly acceptable to them.

WHA/DAS Chris McMullen clears cable.

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